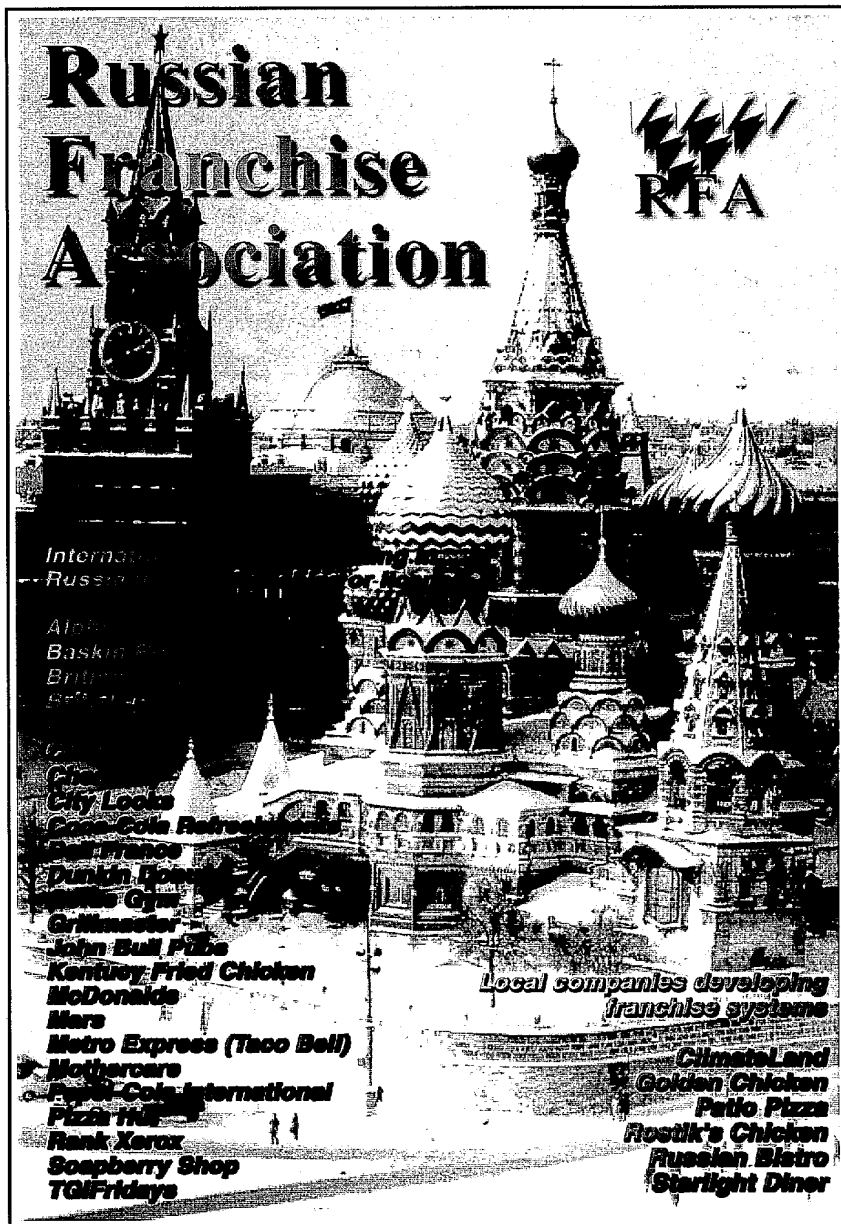


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FINAL REPORT

Volumn I
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SIBLEY INTERNATIONAL

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Gary Vanderhoof provided essential drafting and editing for this report.

FRONT COVER - Poster created for the RFA's inaugural booth at the International Franchise Association Annual Convention in 1997

Franchising in Russia

A Russian Franchise Association

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Franchising in Russia

A Russian Franchise Association

Executive Summary

The Russian franchise industry has grown considerably during the long period of transition from a command economy to one based on market principals. Over the last five years, investment by the most prominent western franchises in Russia exceeded \$345 million. There are 33 franchise systems now operating in Russia, representing 440 individual franchise businesses. Growth has come from an enhanced investment climate for franchising, the provision of training, technical assistance and financing, the presence of foreign and domestic franchise investors, and the individual efforts of hundreds of entrepreneurs. The project was well-timed in that the industry, especially domestic companies, was in dire need of a permanent source of information about franchising in general and, more specifically, in Russia.

This project institutionalized, in a financially viable Russian organization, many of the training, education, promotion, and technical assistance activities of earlier projects. It was a seven month project, subsequently extended to ten months, and implemented between June, 1996 and March, 1997. The work took place primarily in Moscow, but extended to St. Petersburg, Nizni Novogorod, Voronez, and the US. It utilized the services of one full-time, expatriate Franchising Expert in-country, and four short term, expatriate Franchise Specialists.

The Project had three basic components: 1) building up the capacity of local professionals in franchise know-how; 2) establishing and equipping a local resource and membership institution; and 3) providing general support to the franchising industry and a limited number of firms seeking to expand via franchising.

The presence of professionals trained in franchising principals, the availability of well-designed education and promotion materials, and the creation of the Russian Franchise Association (RFA), will accelerate the development of the franchise industry. As the industry expands, it will provide more jobs and create numerous investment opportunities for entrepreneurs. The presence of well-managed franchise networks, assisted by this project and the RFA, will continue to restructure collapsed Soviet distribution systems, linking manufacturers and agricultural producers to growing sectors of the economy.

The establishment of the RFA as an industry representative organization, equipped with a Resource Center and structured along internationally-accepted norms, has ensured that it will be financially viable and effective. While the RFA was only established in December,

1997 and has modest resources, it is operating with a full set of financial, management, and membership development plans developed with the Board using project resources. The RFA Board consists of senior representatives of the franchise industry in Russia and related business development organizations, such as the Russian Association for the Development of Franchising (RADF). The RFA's membership in the International Franchise Association (IFA) now links it to over 50 international educational and research institutions and 37 sister national franchise associations around the world.

There are significant opportunities to use a franchise strategy to extend and deepen the impact of Russian economic reforms. First, franchising remains the most cost-effective means of creating sustainable small and medium sized enterprises (SME's) in transition economies. Second, as programs shift their focus to achieve economic growth, they need market-led strategies to link growth sectors to producers. Wholesalers, distributors and retailing systems perform this function in healthy markets. These are largely absent in Russia and franchising and other innovative distribution systems are cost-effective means to rebuild quickly. Lastly, the RFA's current capacity to function as a proactive promoter of foreign franchise investment is limited. Given the massive impact of successful franchise networks on Russian small businesses, and the essential role SME's play in stable, growing economies, additional support to the industry through the RFA seems warranted.

The Project concluded with four lessons for USAID and other projects:

1. Donor involvement can pull together diverse business groups;
2. The complexity of NGO registration and management in Russia was underestimated;
3. Extending Period of Performance was worthwhile;
4. Staff turnover in this type of project can inhibit effective use of resources; and
5. Its very difficult to accelerate organizational development objectives

Franchising in Russia

A Russian Franchise Association

I. Introduction

Franchising is a method of rapidly expanding a proven business concept. It was devised by business owners to expand their successful business concepts into markets when they didn't have the capital or other resources to do so on their own. It is the most successful business startup and expansion strategy ever developed, and the world's fastest growing source of independent small businesses. While it is most evident in US food services, it has been successfully applied to over 60 different market sectors around the world, including personal services, business services, telecommunications, drug retailing, building maintenance, auto repair and transport systems. Franchise businesses in the US are 8 to 9 times more likely to succeed beyond five years than conventional businesses.

A. Why is Franchising a Tool for Economic Development?

The growth of franchise networks of businesses serves three types of economic development objectives. Franchising promotes foreign investment, creates viable small businesses (SME's), and restructures distribution systems.

1. Small Enterprise Development

Transition economies such as Russia especially need the new jobs and economic dynamism that small businesses (SME's) can create. The majority of new job growth in the US and most European economies comes from such businesses. New job growth and investment is especially important in Russia, where most formerly state-owned enterprises are stagnating or dying, and their attempts to restructure are creating a large pool of

unemployed. It is estimated that in Russia only 15% of employment is in small businesses, as compared to 60% to 80% in western economies¹.

While small business growth is strongly desirable, promoting it can be time consuming and complicated. Typically, the environment for small businesses in transition economies is especially harsh, with high administrative, tax, and other legal or regulatory barriers to new startups or expansions, and few business skills or institutional sources of financing such as bank loans. Russia follows closely in this pattern. The systemic constraints evident in the overall investment climate require concerted efforts to resolve, and there is a period of painful transition before such efforts bear fruit. But jobs and economic dynamism are required immediately if the benefits of market reforms are going to be felt. Small enterprises are usually good at finding profitable niches in an otherwise difficult investment climate. Promoting their growth while improving the environment can be a sensible job and growth creation strategy, providing a project can create or strengthen enough firms to make it cost-effective. Franchising is particularly well-suited to this role because it offers a low-capital means of expanding a successful business idea, and a means for people to own and run their own business while avoiding many of the pitfalls inherent in any new business start-up. It is also more cost-effective than most strategies because business training and strengthening is focused on the franchisor, who then has an economic incentive to pass on these skills and market savvy to franchisees.

2. Restructuring distribution systems

Focusing resources on rebuilding wholesaling, distribution and retailing systems in transition economies can be an effective market-led strategy to economic growth. The rapid emergence of new systems, such as franchising, will lead privatized manufacturers and producers, as well as new start-ups, to structure their operations in line with new market demands.

¹ "Facts and Statistics on Small Business Development in Russia", State Committee for Support and Development of SME's (GKRP)

“Commerce” is a term used to collectively describe sourcing, wholesaling, distribution, and retailing systems that make up businesses which are not production-based. It is an essential activity in any economy since it is the chain, with retailing as its final link, linking manufacturers and agricultural producers to consumers. Commerce plays a vital role channeling information back to producers regarding the patterns of demand in the market place---patterns such as the kind of products and services that need to be produced, and when, where, and for how much they can be sold. Likewise, commerce provides a means of testing and introducing to consumers new product developments made by producers. Finally, it plays an essential role in arranging distribution, logistics, inventory, and pricing of goods and services.

Distribution Systems are Essential

An innovative widget manufacturer who can get WalMart to carry their new product will score a huge market success because of the vast retail distribution system of this organization. Cereal manufacturers or food processors fight for the best shelf space in supermarket chains for the same reason. Unless you can achieve such widespread distribution, getting the product visible will always be a major obstacle to market acceptance.

Now imagine the medium scale Russian widget maker trying to change his widgets to suit new consumer tastes, and then find a way to distribute them widely enough to justify production. Narrow, inefficient distribution channels such as the lone vendor or former state-owned retailer choke off sales and limits production.

Distribution and related service sectors were the least developed sectors in the Soviet system, typically more supply- than demand-driven. When the Soviet system collapsed, the absence of effective market institutions, to distribute farm production for example, caused coordination failures throughout the production and trading systems in the CEE and NIS ². Without effective supply chains, privatized production-based firms are not linked to emerging growth sectors representing consumer and business demand. In agriculture, for example, distribution for many products is handled by very small scale wholesalers, essentially one or two people with a truck, picking up produce from the farm and selling it in a bazaar. Very small vendors distribute fresh milk house to house. These are examples that evidence the market’s resiliency in the face of dysfunctional distribution systems. They are, however, the outward manifestation of a large scale collapse of the

² “From Plan to Market” - World Development Report 1996, World Bank Report 15441

distributive and retailing sectors. This collapse directly impacts on privatized producer enterprises and their prospects for commercial viability.

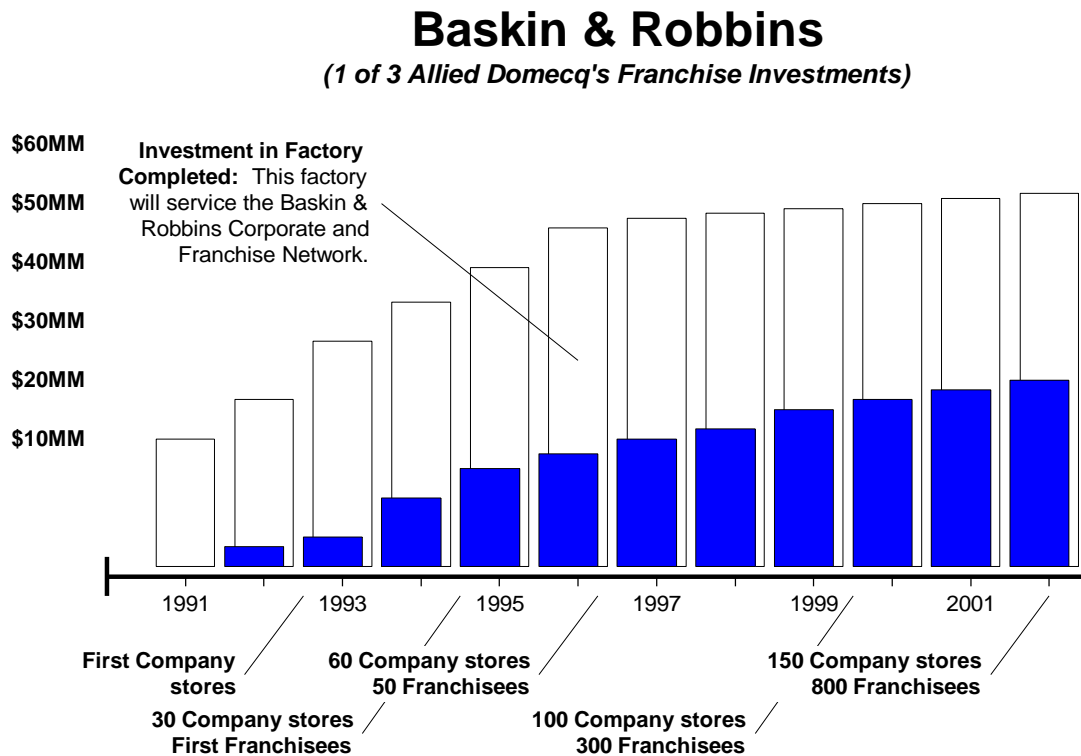
A commerce-led strategy to stimulate growth and restructure producer firms would seed transition markets with franchising and other innovative distribution strategies as a means to rebuild the commerce sector. To have an impact, new systems must be capable of growing rapidly to a scale that will enable them to foster change from the consumer level to the producer level, that is from the bottom up. Franchising is an ideal strategy in this regard. The discussion in this report regarding franchising and foreign investment provides several examples of this in Russia today.

3. Foreign investment promotion

Franchise investment has a different and more economically significant impact than many foreign investments. Franchisors typically bring technology and service standards unheard of in these markets, and raise the quality of all service providers. Their entry almost always has positive down-stream impacts, and creates new jobs immediately, unlike some investments that first result in a painful downsizing.

As franchisors move from corporate-owned operations to franchising with local investors, their efforts create large numbers of small, independently owned businesses. McDonald's in Russia is now at this stage and will grow very rapidly. Each franchisee adopts western style business and accounting practices. They typically mobilize relatively small pools of local investment capital that are otherwise untapped in these markets where financial sectors are not functioning effectively. Such franchise businesses are 8 to 9 times more likely than conventional independent start-ups to succeed beyond five years. These small groups of investors and owner/operators will become the foundation of a vibrant small business sector that is critical to a market economy and democratic society. Creating small businesses domestically is an unusual and highly desirable outcome of foreign franchise investment.

When international franchise companies enter any country, investment in retail and services sectors increases. In addition, investment in fixed infrastructure and employment in support services also increases. Consider the investment made by one of Allied Domecq's franchise businesses in Russia, shown in the graph below.



The vertical axis shows investment-to-date, while the horizontal shows time. The dark columns represent franchisee investments (i.e., small investors), while the lighter columns represent the investments of the parent franchisor. Note that Allied Domecq invested over \$40 million to create the infrastructure necessary to support its corporate and franchisee network. That “infrastructure” includes production-based facilities and supplier relationships that reach far back into the supply chain in the agribusiness sector.

At the same time the "Factory Investment " was started, so too was there an investment in corporate retail stores. In December 1996, there were 50 corporate units and 67 franchise

units in the retail chain. With the infrastructure in place and the proof of the system through the corporate network, notice the exponential increase in units between 1997 and 2001.

This investment and growth pattern is identical to the patterns one sees in the McDonald's network (their investment is significantly greater than \$50 million) and others. Although the impact on the food services sector is the easiest to visualize, other services delivery and retailing systems have a similar impact on small businesses, capital mobilization, and entrepreneurship. In Russia these include printing, computer services, medical services, and educational services.

B. Project Rationale

Franchise development is an economic restructuring and growth strategy aimed at establishing new distribution systems that create small businesses, restructure producer firms, and foster foreign investment. During this period of transition and afterward, it can lay the foundation in Russia for the emergence of a vibrant small business sector more quickly than through any other enterprise development strategy.

It is only recently that this successful private sector concept has been "discovered" by development professionals. It is increasingly being viewed by USAID, the World Bank, TACIS and the Know How Fund as a highly effective economic development tool, with projects in places as diverse as Kazakhstan, Kyrgyzstan, Philippines, South Africa, Morocco, Swaziland and Ghana.

This project focused on institutionalizing the training, education, promotion, and technical assistance aspects of earlier projects. It is only through the institutionalization of such services in a financially viable organization can the development of the franchise industry be accelerated. It is only through the establishment of an industry representative organization, structured along internationally accepted norms, that a financially viable

entity be established. Resources were therefore directed at the establishment of the Russian Franchise Association and a Resource Center. It was well-timed, in that the industry, especially domestic companies, were in dire need of a permanent source of information (a resource center / an association) about franchising in general and specifically in Russia.

II. Project Background

A. Market Transition

This project took place in the context of a massive upheaval in the Russian Federation that was unprecedented in history. The country is well advanced in this massive effort to create a democratic society with a market-oriented economy. Millions of Russians became shareholders in a privatization program that transferred over 120,000 enterprises from state to majority private ownership. This is being followed by massive transfers to private control of other parts of the economy, such as land and home ownership. With the introduction of the new civil code in March, 1996, an entirely new legal framework was put in place to support these changes. Reforms underway in the banking and financial, energy, and agriculture sectors are equally fundamental and wrenching for all their participants.

For private investors and consumers these transformations have meant falling wages, economic stagnation, rising prices, high interest rates, loss of jobs, and a great deal of uncertainty about even the near-term future. A recent analysis of restructuring progress made by 18,000 predominantly large, former state-owned enterprises found that the vast majority had made little or no progress towards putting in place the changes in their firms that would make them profitable³. The small business sector, however, is growing rapidly, and the GGRP counts over 877,000 registered small businesses as of January

³ "Some Preliminary Findings on Restructuring in Russian Privatized Enterprise", by Joseph Blasi, Rutgers University, October 1996.

1996, a tripling of their number since 1991. Official statistics attribute 12 percent of GDP and 20 percent of Russian exports to these small enterprises.

B. Franchise Industry

Franchise industry growth in Russia has mirrored that of small businesses and has been dramatic. Over the last five years, investment by the most prominent western franchises in Russia exceeded \$345 million. According to the Russian Franchise Association (RFA) estimates, there are 33 franchise systems now operating in Russia, representing 441 individual franchised businesses. This is compared to a 1994 estimate of 70 individual franchised businesses. Fourteen of the thirty-three systems are local enterprises developing franchise networks. Employment in all these franchise businesses now exceeds 17,000 and spans 12 sectors.

The enhanced environment for franchise investment, the establishment of an industry association, and the ultimate growth in the number and range of franchised businesses, are all the products of a combination of donor-financed technical assistance and training, private foreign and domestic investment, and government initiatives.

C. USAID Activities

USAID-funded franchise initiatives started in 1994 with one of the first enterprise restructuring efforts in USAID's and Government of Russia's (GOR) assistance program. This was a pilot program to establish franchise businesses from two formerly state-owned enterprises with a laundry (Blue Kristal) firm and an audio device manufacturer (Istok Audio). USAID and other donors laid the groundwork for franchising in the new civil code with work on the laws on concessions, intellectual property rights, trademark and other provisions. Wide interest in franchising was also generated through a training and promotional program executed in ten cities in 1995/96⁴.

⁴ Sibley International - Contract CCN-0005-C-00-4005-00, Task Order #'s 3-0095-SIB, 4-0122-SIB

These were further supplemented by an assortment of smaller-scale activities such as USAID's agribusiness effort to assist the US franchise firm Ben & Jerry's Ice Cream, intermittent franchise seminars by business development groups, occasional legal advisory efforts, and the smaller scale educational efforts of other donors.

III. Project Description

The Project was developed by the USAID Moscow Office of Economic Reform. The goal was to accelerate the development and growth of private enterprises. The project objectives, resources, and strategy employed by the Sibley Team are described below.

A. Objectives

The Objective of this task order was to develop the Russian Association for the Development of Franchising (RADF) into a viable and self-sustaining local resource institution that will represent the industry and continue the work of developing and supporting franchising in the Russian Federation. This objective was modified in an amendment described below.

This project objective was consistent with the Mission Strategic Objective 1 .3; *Accelerated Development and Growth of Private Enterprises*.

It contributed to two Intermediate Results in the Mission Strategic Framework; a) *Sustainable network of business support institutions rendering services to entrepreneurs and businesses*, and b) *Policies, legislation, and regulations conducive to broad-based competition and private sector growth*.

B. Resources & Time

This was a seven month project, subsequently extended to ten months, and implemented between June, 1996 and March, 1997. The work took place primarily in Moscow, but extended to St. Petersburg, Nizni Novogorod, Voronez, and the US. It utilized the services of one full time expatriate Franchising Expert in country (Peter Classen), and four short-term, expatriate Franchise Specialists.

The expatriate Team drew from the services of local experts as well, building a team of local professionals who were provided hands-on training opportunities in franchising concepts, US-based orientation, and extensive counseling. In particular, the Team worked closely with the President of the RADF and senior representatives from the franchise industry in Russia. (e.g., Xerox, Rosinter, Allied Domecq, British Home Stores / Mothercare, Baker & McKenzie)

The Sibley Team also collaborated with other projects operating in the Russian Federation, in particular the USAID-funded Center for Business Skills Development (CBSD). The project team shared office and meeting space, eventually locating the Resource Center in CBSD space and collaborating on training initiatives.

C. Strategy Employed by the Project Team

The Task Order had three basic components; 1) building the capacity of local professionals in franchise know-how, 2) establishing and equipping a local resource and membership institution; and, 3) providing general support to the franchising industry and a limited number of firms seeking to expand via franchising.

1. Building capacity

Capacity, awareness and know-how were created and/or strengthened at several levels using a variety of strategies throughout the period of performance.

First, the Team adopted a practical, hands-on approach to training local professionals in both franchising know-how and association development and management. A series of firm-level engagements were developed with franchise firms in order to provide practical opportunities to learn franchise development firsthand. RADF Staff and two local professionals conducted a full range of operations, planning, research, and other engagements with 8 local firms in order to apply franchise concepts to real life business development problems. Opportunities for RADF Staff to establish commercial relationships with franchise clients were encouraged and supported wherever possible to foster its growth as a resource to the industry. (See Consulting Reports I & II)

They were also exposed to US and United Kingdom association and franchise organizations through an internship and orientation trip to the International Franchise Association, the American Society of Association Executives, and other US entities. The knowledge gained here was immediately applied to education, promotion, and membership development activities in Russia with the industry association.

2. Establishing a local representative body and resource institution

The Task Order was originally designed by USAID to work exclusively with the Russian Association for the Development of Franchising (RADF). It was subsequently modified in December to revise this approach in acknowledgment of the legal, organizational, and other constraints to implementing the strategy.

The origins of the RADF lie in the Russian Committee for Small Business Support with the Russian Chamber of Commerce and the Moscow City Government. It is a registered public association (not an industry association) with a Founder's Board, President and registered branch network. Its principal activity is the promotion of franchising through presentations at conferences and seminars.

RADF Membership is open to individuals and other non-profit organizations, and it was expected this would include franchisors, franchisees, and franchise service providers. This proved not to be the case once a full legal review was conducted, due to its incorporation status. Its leadership is not elected from the members, and its policies most closely resemble a quasi-government organization that derives revenue from government grants and educational/training seminars. In practice it has been acting as a resource to the government and the general public.

Since the RADF could not offer membership to the franchise industry, it could not serve as a representative body for the industry. It was, therefore, unable to effectively fulfill the requirements of the task order as a counterpart. Even as currently constituted, however, it was able to promote franchising as a service organization, as the task order specified. The Sibley Team adopted the strategy of working closely with the RADF to enhance its promotional capabilities and execute those portions of the Task Order strategy that were viable. Simultaneously, the Team worked to create an industry representative body in accordance with US and international norms.

During implementation, the Sibley Team brought together a separate group of Russian and international franchisors and franchisees to explore the feasibility of establishing a single entity to become both representative body and promotion organization. After a long series of working sessions, on November 27 the RADF and industry leaders together agreed to form the Russian Franchise Association (RFA). USAID, RADF, RFA, and the Sibley Team then agreed to focus remaining task order resources on the establishment and international accreditation of the RFA.

3. Institutionalizing franchise know-how

Another key element of the task order strategy was to develop a consulting capacity at the RADF. The Team's strategy in this regard was to build this capacity with RADF staff around the hands-on application of franchising principals as described previously. It was, however, inappropriate to incorporate such fee-based consulting into the representative organization that eventually became the RFA.

The establishment of a Resource Center was a key part of the strategy to build institutional capacity and support the local industry. Unlike the consulting capacity, this Center could be co-located with the representative body and be open to all members. The Sibley Team sought a location with a high level of "entrepreneur" foot-traffic, fair access to transportation, access to other support services such as meeting spaces and training facilities, and a modest, all-inclusive cost. The Team and counterparts envisioned a compact office cum library with a wide range of resource materials and linkages to other business development initiatives.

4. Provide support to the franchising industry

In implementing this component the Sibley Team adopted a two-pronged strategy. The first was to promote the availability of the RADF/RFA resources to the industry and other business development efforts. The Team then responded to all requests for assistance that could be accommodated, using every engagement as an opportunity to further train local professional project staff as well as strengthen the client firms' operations. The Team closely tailored the service provided to client needs, undertaking a standard assessment and then targeting assistance where the impact would be greatest.

The second component of the strategy was to develop as much information in the way of educational, networking, promotional, and market research materials as possible. These were then coupled with a range of outreach activities and the establishment of the Resource Center which broadly disseminated this information and generated still further interest in and knowledge of franchising.

As a result of the modification to the task order, those elements of the project strategy related to the preparation, promotion, and management of an international conference on franchising in Russia were revised. As it became apparent that an alternative to RADF was needed to become the industry representative body, it also became apparent to the Mission, the Sibley Team, and industry representatives that an international conference in Russia was premature at this time. All parties agreed to focus resources instead on the establishment of the RFA.

IV. Project Impact

In the interests of reporting cohesively on project impact, the Deliverables have been grouped into three broad categories. Revisions to the deliverables from the task order modification are noted.

Project impact was expected and specified in terms of A) the institutional capacity and outreach of the industry representative body; B) the professional capacity of local professionals, particularly at RADF; and C) the services available at the Resource Center.

A. Institutional Capacity of RFA

Deliverables (a), (c), (e), (f), (g), (i)

The most important result in this regard is the establishment of a fully functional Russian Franchise Association, created in accordance with internationally accepted norms for a non-profit, membership organization representing and promoting the industry. Over time, this will greatly advance the private and public sector interests in franchising, and facilitate the utilization of franchising as a business strategy in Russia for domestic and foreign investors. While this was not the RADF as originally planned, the formation of the RFA represented a significant enhancement of that strategy as was described above. Its value as a means for industry leaders to network and come together to pursue common goals

cannot be overstated. All other deliverables were also completed within budget as specified.

The RFA has 17 Charter members who have pledged \$27,000 to the first year's operations costs. It held its first Annual General Meeting in February, at which board members were elected, and the Chairman, Mr. Michael Zupsic of Allied Domecq, was named. Mr. Alexander Mailer of the RADF was named as President. As of March 31 an executive director had not been named.

The RFA is made up of international and Russian franchisors, franchisees, law firms and consulting groups, and other industry representatives such as the RADF branches from Moscow and Omsk, and the Fund for Franchise Development from St. Petersburg. **In March, the RFA was accredited by the International Franchise Association (IFA) at their annual convention as the national organization representing the Russian Federation.** (See IFA Letter - Appendix D) After a thorough legal review by the RFA Board, and for tax and other reasons, they decided to register the RFA in the US as a temporary measure. The RFA is now a non-profit Delaware organization. It has filed to establish a representative office in Moscow. A list of the Charter members is contained in Appendix A.

An RFA headquarters office is operating in Moscow at Ofitersky Korpus, Goroduk Baumana (Ismilovski Park) with project-financed computers, phone/fax machine, copier, VCR and other items necessary for its operation. This office also houses the Franchise Resource Center.

A full set of organizational development plans and materials were prepared, such as Legal Registration and Charter, By-Laws, a Code of Ethics, and Mission Statement. The operations plans developed included budget and fund raising requirements, fee structure, membership development activities, and management guidelines. The Board and principal officers of the RFA used these materials extensively in the formation and operation of the

RFA and received extensive counseling, advice and guidance by the Sibley Team. (Incorporation documents and Operations Plan are included in Appendices B & C)

A similar set of operational and management documents were prepared for the RADF in accordance with its objectives to become a source of training and consulting expertise for the industry. Combining both membership services and consulting services was envisioned in the Task Order as a desirable development strategy for RADF. Once initiated, however, the Sibley team recognized that these two services were inimical in a single organization and created intolerable conflicts of interest. This was one of the factors leading to the formation of the RFA. These RADF activities are discussed in more detail in Section B below.

A monthly newsletter, promotional brochures (Appendix E), and a series of briefings were prepared by the Team and accepted by the RFA Board for use in outreach and membership development activities conducted from November through March. A series of workshops and one-day seminars were held in Voronez and St. Petersburg to promote the RFA and generate interest in franchising. Organizational linkages were established with other associations and business development and market reform initiatives to advance the interests of the industry.

The Board and Sibley identified financial resources from charter members and other sources to cover a majority of the first year operating costs. The Board has now begun to seek other sources to make up the deficit; preliminary interest has been expressed by the EU TACIS Business Development Program in Moscow.

Educational materials were also prepared, such as issue papers on basics of franchising, legal considerations, financing opportunities, and other topics of interest to prospective members and entrepreneurs. A general conference as described in Deliverable E was not undertaken, as was agreed to and approved in the context of the modification. Preliminary

program agendas and draft promotional materials were, however, prepared to lay the groundwork for such a conference.

B. Increased Capacity of Local Professionals

Deliverables (a), (b)

A cadre of trained Russian professionals was created, trained to various skill levels in all aspects of franchise business development and operations, consulting, association development and management, and industry promotion. They acquired a range of skills in franchise planning, operations, and development, and in association development and management. All are now employed in some capacity in the industry applying the skills obtained from this project. This cadre consisted of four groups, each of which acquired somewhat different skills.

First, four local hire project professionals were schooled in and worked intensively in almost every aspect of franchising and association development and management. Three of the four applied their theoretical training to practical franchise business problems via the firm-level consulting engagements. They acquired analytical skills in every aspect of franchise start-up, expansion, financing, marketing, and planning. They also performed industry research, training, and promotional activities on behalf of the RADF and RFA. Two of the four also completed internships with UK and US franchise firms such as McDonalds, Mail Boxes Etc., Kwik Kopy, and the International Franchise Association.

A second group consisted of four key industry leaders; Mr. Alexander Mailer, President of the RADF and RFA in Moscow, Yvgeny Levine, Deputy Director at RADF, Sergei Silig of the Fund for Franchise Development in St. Petersburg, and Eva Irodova, Board Member of the RFA. They were the beneficiaries of orientation visits to US and U.K. franchise firms and associations, and of participation in the IFA Conference and RFA induction in Miami in March. Four other members of the RFA Board received extensive counseling on association development in the course of establishing the RFA.

A final group includes the RADF management and staff, and management of the approximately 10 franchise operations that were the beneficiaries of consulting engagements. All received substantive guidance in the application of franchise concepts, the preparation of business plans and franchise systems, the implementation of franchise development plans, and opportunities for financing. Although this was not a deliverable specified in the Task Order, the range and impact of consulting engagements on individual enterprises and their management was significant. (See Appendix F for details on Enterprise Impact)

Mr. Mailer and his RADF staff acquired new skills in defining, negotiating, pricing, and delivering consulting services to franchise clients. The Moscow City Government has selected the RADF as a franchise specialist and has granted them \$50,000 to create education programs for Moscow-based entrepreneurs. Additional opportunities are being pursued by the RADF to conduct a regional development program.

Sergi Silig was a key participant in training initiatives. He took the training experience and additional counseling provided by the Project by the Sibley Team, and combined it with entrepreneurial zeal to create a vibrant association in St. Petersburg (an RFA subchapter). He and several colleagues have established a small resource center, conducted training for potential franchisees, established a working association body with industry representatives, and begun lobbying activities geared at city support for franchising.

C. New Services Available at the Franchise Resource Center (FRC)

Deliverables (d), (e), (i)

The Franchise Resource Center is open to the public, and as of March, is operating as an exchange for information on the industry and franchising in general. It is serving as

1. a source for educational information on franchising concepts, principals, and their applications;

2. market intelligence on the Russian consumer market;
3. local and international firms active in the Federation;
4. sources of franchises and assistance for aspiring entrepreneurs; and
5. a clearing house for industry news and developments.

In its current state, the FRC is a passive entity, equipped with a wide range of publications in Russian and English, market data and industry database and guides, franchise training and development manuals, videos, legal and regulatory reference materials, and promotional brochures and papers. Once the RFA is on firmer financial footing and an Executive Director is named, most of the resources needed, such as educational materials, outreach programs, and conference materials are already prepared for the RFA to become proactive in industry development and education. In particular, these materials will be valuable when extending services into the regions becomes feasible.

V. Project Lessons & Recommendations

All targets were met or exceeded in this project, so the Sibley Team considers this project a success. Delays experienced by the Team were due to factors that could not have been foreseen by the Sibley Team nor USAID without completing additional analysis prior to the development of the task order. Project impact could however have been amplified and lessons were learned that will prove valuable for other projects.

A. Opportunities for Expansion or Continuation

As described previously, franchising has the capacity to create significant impact on economic restructuring and growth. USAID's efforts have focused on the training and promotional dimensions of introducing franchising into Russia. Based on the high level of franchise investment and the industry's impact to date, this has clearly had a positive impact.

The impact of franchise initiatives on the Mission's strategic objectives to date could be greatly enhanced by adopting a focused sectoral approach, such as the restructuring of agribusiness distribution systems. Focusing resources on the distribution systems permits a more market-led (demand-driven) strategy to emerge, as compared to efforts focused on restructuring the producer side of the equation (supply-led strategy). When paired with sector policy reforms, the restructuring of the agricultural supply chain, for example, and the introduction of innovative distribution strategies such as franchising, brings project efforts closer to the consumer and therefore more market-oriented. The establishment of a franchise network of small-scale agricultural inputs for example, could transform the means by which independent and small farmers get fertilizers, seeds, insecticides and technical advice. Such a strategy would stimulate local investment up and down the supply chain and relieve the choke points that strangle similar economic restructuring initiatives.

A second opportunity for continuation concerns the Russian Franchise Association. While USAID's support was sufficient to bring the organization into being and establish a modest Resource Center in Moscow, the RFA's ongoing resource base is very limited. Its strength and effectiveness as an advocate for the industry and promoter of foreign investment would benefit from additional support in the form of outreach activities, membership development, and stronger linkages to US organizations and franchisors. In addition, while franchise investment has been significant, only five percent of the 400 or so US franchises that actually have well-advanced international expansion programs are in Russia. Promoting Russia to the remaining networks represents a significant opportunity to promote the US's comparative international advantage in franchise development.

A great store of valuable training materials, promotional information, trained local professionals, and most importantly, a set of institutional and professional linkages have been created to propel the industry forward. This set of resources is, however, concentrated in Moscow. In the interests of economic growth in the near term, these

assets could be worked more extensively with additional efforts to roll out similar services to key regional cities. There are over 50 cities with 1 million plus people in Russia.

B. Lessons Learned

The following are a number of valuable lessons derived for other projects, USAID Moscow, and other service providers.

1. *Donor involvement can pull together diverse business groups*

In the confusing and unpredictable business environment of Russia, it is more difficult for individual participants to see the benefits of collaborating for a common purpose. This is especially so in Russia where natural tensions between foreign and domestic investors are heightened. This project shows that financing the participation of outside third parties, such as the Sibley Team, can greatly accelerate the formation of such groups, and thereby improve business climate. Secure financial and organizational sustainability, however, requires more extended support than most projects are capable of providing.

2. *Complexity of NGO Registration and Management Underestimated*

Russian regulations and practices concerning the registration, establishment, taxation, and operation of non-profit, representative bodies differ considerably from those which are accepted internationally. Additionally, the concepts of fee-based membership, elected boards, and non-profit, service-oriented operations are not well understood. For example, a necessary precondition to the success of the project, as originally formulated, was the capacity of RADF to function as both an industry representative and service organization. Status as a fee-based, membership organization was the only route to financial sustainability. While the RADF can and does provide franchise industry development services, it was prevented by law from representing the industry in a manner consistent with international norms. This was a significant weakness in project design that was eventually overcome. As these complexities were not anticipated in the task order, the

necessary expenditure of resources in time and materials far exceeded any provision made by USAID or the Sibley Team in planning for the establishment of a representative body.

3. *Extending Period of Performance was Worthwhile*

The decision to take advantage of the emergence of the RFA Organizing Committee and extend the task order greatly enhanced the impact of project resources. There was some risk in gauging that the Committee had sufficient common ground to forge a sense of purpose and was prepared to commit financially to the RFA's formation. These both proved correct and the short extension was sufficient to get them started.

4. *Staff Turnover*

To accelerate project impact, this task order set ambitious institutional development objectives without the benefit of in-depth, prior analysis. While this had the great advantage of moving directly to solving practical problems, it required a participative management process between USAID and the contractor to resolve the unforeseen difficulties mentioned above. This succeeded, but the process was made more complex than necessary due to changes in USAID Project Officer assignments early in the period of performance, while the Work Plan was still in its formative stage. All parties would have benefited from the closer involvement in the design of and/or more comprehensive briefings for the new Project Officer.

5. *It is impractical to accelerate certain organizational development objectives*

More effort in terms of manpower would not have brought about quicker results. We found the RFA's Board of Directors to be extremely dedicated to the association and very giving of their management time. With the strict project deadlines Sibley International had to impose in order to complete the project, they found it necessary to meet 18 times as a board between January 1 and March 31st. For any fledgling association this is excessive and, more importantly, detrimental to the "volunteerism" on which the first board is based.

APPENDICES A, C, E, and F included in Volume I

APPENDICES A-G A full set bound separately in Volume II in the interests of space